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INFO RUEHMO/AMEMBASSY MOSCOW 1773
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E.O. 12958: N/A

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SUBJECT: Impasse with Russia Over Joint Venture Railroad Head Leaves
Mongolian In Charge

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¶1. (U) On April 11-13, a meeting of the joint Russian-Mongolian Railroad Authority board failed to select a new Chairman. The post has been vacant since early October 2006, when Russian Chairman Vasile Magdei and his Mongolian deputy (both reportedly inebriated) accidentally died of carbon monoxide poisoning while on a fishing trip. Over the last six months, the board has made eight attempts to appoint a new chairman, but the decision has foundered over Mongolian-Russian disputes about who should fill the post each attempt. In the interim, a Mongolian serves as acting chairman. Sources state the board will next meet again in July.

¶2. (SBU) A 1949 agreement that created the railroad set up a 50-50 joint venture between the Mongolian and Russian governments. Under the terms that agreement, the board has an equal number of members from each government, and the chairmanship is supposed to rotate between the two sides every three years. However, a Russian held the position from 1949-1991. A Mongolian was chairman from 1991-2004, after which Magdei was appointed to the position in December 2004, presumably restoring the three-year rotation, which would theoretically put a Mongolian in as the chairman in December of 2007.

¶3. (SBU) According to Mongolian sources, if Russian officials refuse to name a Mongolian as the new chairman immediately, Mongolia will simply continue to defer the issue until the three year Russian term expires. Mongolian officials are visibly frustrated with the Russian role in the railroad, a legacy from the semi-colonial Socialist era -- and especially frustrating in view of the railroad's vital transport role for exports and imports in this landlocked country. Mongolian officials emphasize that, 1949 agreement notwithstanding, Mongolia is the de facto manager and operator of the railroad. (Note: Last week, Mongolia's parliament began discussing a new draft railway law. While details are still vague, the law apparently allows privatization of certain aspects of the railway and introduces competition and different types of ownership (private, state etc). Mongolian sources say the law does not yet affect the 1949 agreement, but they believe this could be the first step in Mongolia's efforts to renegotiate the 1949 agreement, since the legislation will state that the new Mongolian law trumps all.)

14. (SBU) While Mongolia favors changes in the railroad agreement, Russia reportedly seeks to use the railroad as leverage in its bid to gain preferential access to Mongolian minerals. During the July 2004 visit of Russian Prime Minister Fradkov to Ulaanbaatar, reliable sources report Fradkov indicated that a major upgrading of the railroad would be possible if such rights were granted. While that offer was rebuffed, Russian railroad experts subsequently have mooted plans for \$2 billion of upgrades, including double tracking and electrification. Given the railroad's current financial difficulties, the financing for such expenditures is uncertain, failing large Russian investments.

15. (SBU) In early March, the railroad apparently took a loan from Gazprom to deal with a sharp fall in income after Russian oil transiting Mongolia to China plummeted last year following the Yukos bankruptcy. Another loan seems to be in the offing as the railroad continues to requiring funding. Rather than the Russian upgrading plans and minerals quid pro quo, Mongolian railroad officials strongly favor a proposed Millennium Challenge Account compact project which would improve efficiency and increase railroad capacity, with the Compact-financed assets held in a new leasing company which would be wholly Mongolian-owned.

Goldbeck